

## GENERAL NOTICE

### NOTICE 263 OF 2014

#### DIRECTIVE ISSUED IN TERMS OF THE PUBLIC AUDIT ACT, 2004

Under the powers vested in me by section 2(b), read with section 13(3)(b) of the Public Audit Act, 2004 (Act No. 25 of 2004) (hereafter referred to as the PAA), I, Thembekile Kimi Makwetu, Auditor-General of the Republic of South Africa (hereafter referred to as the AGSA), hereby determine the following:

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## AUDIT FUNCTIONS PERFORMED IN TERMS OF THE PAA

### Audit of financial and performance management

1. Financial and performance management is audited as part of the annual audit process. Accordingly, the auditor's report reflects an opinion or material findings on the following:
  - Financial information, through the auditor's opinion on the financial statements or similar reporting
  - Reported information on performance against predetermined objectives
  - Compliance with applicable legislation relating to financial matters, financial management and other related matters
  - Internal control deficiencies that resulted in:
    - qualifications of the opinion on the financial statements
    - findings on the reported information on performance against predetermined objectives
    - findings on compliance with legislation.

### Auditing standards – section 13(1)(a) of the PAA

2. The International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC)<sup>1</sup>, as well as the Independent Regulatory Board for Auditors (IRBA)<sup>2</sup> Code of professional conduct for registered auditors, are applied in the audits.
3. In addition, relevant principles contained in:
  - the International Standards of Supreme Audit Institutions (ISSAIs) and
  - the INTOSAI Guidance for Good Governance (INTOSAI GOVs),published by the International Organisation of Supreme Audit Institutions (INTOSAI)<sup>3</sup>, should be applied.

### Auditing of reported information on performance against predetermined objectives – sections 20(2)(c) and 28(1)(c) of the PAA

4. In terms of sections 20(2)(c) and 28(1)(c) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's reported information on performance against predetermined objectives. Until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit conclusion in the auditor's report, the conclusion on the usefulness and reliability of the reported information on performance against predetermined objectives is included in the report to management, with material findings being reported in the auditor's report.
5. The audit of the reported information on performance against predetermined objectives is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance engagements other than audits or reviews of historical financial information* for adherence to the *Performance management and reporting framework*, consisting of the following:
  - Applicable legislation

<sup>1</sup> <http://www.ifac.org/IAASB>

<sup>2</sup> <http://www.irba.co.za>

<sup>3</sup> <http://www.intosai.org> and <http://www.issai.org>

- The *Framework for the managing of programme performance information*, issued by the National Treasury
- The *Framework for strategic plans and annual performance plans*, issued by the National Treasury. This framework is applicable to all national and provincial departments, constitutional institutions and those public entities listed in parts A and C of schedule 3 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (hereafter referred to as the PFMA).
- Circulars and guidance issued by the National Treasury regarding the planning, management, monitoring and reporting of performance against predetermined objectives

**Auditing of compliance with applicable legislation relating to financial matters, financial management and other related matters – sections 20(2)(b) and 28(1)(b) of the PAA**

6. In terms of sections 20(2)(b) and 28(1)(b) of the PAA, the auditor's report must reflect an opinion or conclusion on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters. Until such time as the environment shows a state of readiness to provide reasonable assurance in the form of an audit conclusion in the auditor's report, the auditor's report only reflects material findings that come to the attention of the auditor.
7. The audit of compliance with legislation is performed in accordance with principles in the applicable ISSAIs.
8. The auditor's report reflects material findings on non-compliance with relevant legislation in respect of the following subject matters, as applicable:
  - Strategic planning and performance management
  - Budgets
  - Financial statements, performance and annual reports
  - Audit committees
  - Internal audit
  - Procurement and contract management
  - Human resource management and compensation
  - Expenditure management
  - Transfer of funds
  - Conditional grants received
  - Revenue management
  - Asset and liability management
  - Consequence management
  - Service delivery – Education, Health, Public Works, Human Settlements and Social Development
  - Monitoring and oversight
  - Other matters that, in the auditor's professional judgement, are of sufficient importance to merit inclusion in the auditor's report for communication to those charged with governance
9. The criteria used to evaluate the above subject matters are derived from the applicable legislation, with specific focus on the following:
  - PFMA and regulations and instructions issued in terms of the act

- Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (hereafter referred to as the MFMA) and regulations issued in terms of the act
- Division of Revenue Act
- Appropriation Act
- Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations and instructions issued in terms of the act
- Municipal Systems Act, 2000 (Act No. 32 of 2000) and regulations and instructions issued in terms of the act
- Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and regulations and instructions issued in terms of the act
- Companies Act, 2008 (Act No. 71 of 2008) and regulations and instructions issued in terms of the act
- Public Service Act, 1994 (Act No. 103 of 1994) and regulations issued in terms of the act
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations and instructions issued in terms of the act
- Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the act
- State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and regulations issued in terms of the act
- Auditee-specific enabling legislation

**Internal control, as indicated by the reference to financial management in sections 4(1) and (3) of the PAA**

10. In terms of sections 4(1) and (3) of the PAA, financial management must be audited and reported on. Deficiencies in internal control that resulted in qualification of the opinion on the financial statements and in material findings on the reported information on performance against predetermined objectives and compliance with legislation are reported in the auditor's report under the following headings:
  - Leadership
  - Financial and performance management
  - Governance
11. The criteria used to evaluate internal control are set out in addendum A hereto.

**Focus areas – section 13(1)(b) of the PAA**

12. Additional specific audit focus areas are identified based on an annual risk assessment and are included in the AGSA's *R3: Reporting* guide. Material findings arising from the audits are included in the reports to management and in the AGSA's general reports.

**Discretionary engagements**

13. In terms of the PAA, the AGSA may, at its discretion, perform other defined types of engagements, including performance audits, audit-related services, investigations and special audits. In addition to the International Standard on Quality Control (ISQC) 1 *Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements*, the standards that guide these audits are as follows:
  - Performance audits – section 20(3) of the PAA

The AGSA may report on whether the auditee's resources were procured economically and utilised efficiently and effectively. These audits are referred to as performance audits. New performance audits are approved by the AGSA's performance audit advisory committee. These audits are conducted in accordance with the applicable ISSAIs and the *Performance audit manual*, developed by the AGSA.

- Audit-related services and special audits – section 5(1)(a) and (d) of the PAA

These audits are conducted in accordance with International Standard on Auditing (ISA) 805 *Audits of single financial statements and specific elements, accounts or items of a financial statement*, ISAE 3000 *Assurance engagements other than audits or reviews of financial information* or ISRS 4400 *Engagements to perform agreed-upon procedures regarding financial information*, as appropriate.

- Investigations – section 5(1)(d) of the PAA

Investigations are conducted in accordance with *Standards and guidelines: Investigations* developed by the AGSA.

### Complaints against the AGSA

14. The AGSA's *Policy on handling complaints against the AGSA*, in terms of section 13(1)(c) of the PAA, accommodates complaints pertaining to the following:

- The exercising of powers, the performance of duties and the administration of the AGSA pertaining to the performance of audits and any other functions in terms of section 11 of the PAA
- Work performed during an audit by the AGSA, authorised auditors and other personnel where it is alleged that such work does not meet professional standards and regulatory and legal requirements
- Complaints of non-compliance by the AGSA, authorised auditors and other personnel with the AGSA's internal system of quality control
- Complaints pertaining to the Auditor-General as a person.

15. Complaints against the AGSA should be addressed in writing to the:

Complaints Manager, Auditor-General of South Africa

Physical address: 300 Middel Street, New Muckleneuk, Pretoria

Postal address: PO Box 446, Pretoria, 0001

### AUDITS OF PUBLIC ENTITIES AND OTHER INSTITUTIONS NOT PERFORMED BY THE AGSA – SECTION 4(3) OF THE PAA

#### Audits that the Auditor-General has opted not to perform – section 25(1)(a) of the PAA

16. In terms of subsections 4(3)(a) and (b) of the PAA, I may audit and report on the accounts, financial statements and financial management of any public entity listed in the PFMA and any other institution not mentioned in section 4(1) of the PAA and which is:

- funded from the National Revenue Fund or a provincial revenue fund or by a municipality or
- authorised in terms of any legislation to receive money for a public purpose.

17. In terms of section 25(1)(a) of the PAA, I opt not to perform the audits of any auditees referred to in section 4(3) of the PAA, which are not already being audited by me, for the 2014-15 and following financial years, unless advised otherwise by me prior to the start of the auditee's financial year.

**Appointment of registered auditors – section 25(1)(b), (2), (3) and (4) of the PAA**

18. An auditee should proceed to appoint an audit firm registered with the IRBA as stipulated by section 25(1)(b), read with section 25(4) of the PAA, if not advised before the start of the financial year that the AGSA will perform the audit.
19. Before appointing the auditor, the auditee must notify the AGSA business executive responsible for the audit of the controlling department to which the auditee reports of the suggested appointment, including information on the extent of other services that will be provided during the period of the appointment. In this regard, the document *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached hereto as addendum B, must be completed. The legislative requirements relating to the auditee are also taken into consideration by the AGSA before consent is provided. The AGSA may consult with the responsible executive authority on the appointment of the audit firm.
20. The AGSA consents to the auditee's appointment of the registered auditor within 14 calendar days of receiving the notice, or a longer period as agreed. If no response is received, it can be assumed that the AGSA is in agreement with the appointment. If the suggested appointment is not accepted by the AGSA, the auditee must repeat the process to appoint an auditor.
21. Appointments of firms may not be made for periods exceeding one financial year of the auditee.
22. The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit is to be conducted by the AGSA.

**Discharge of registered auditors – section 26 of the PAA**

23. In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.
24. Before discharging the auditor, the auditee must provide the auditor with:
  - a written notice setting out the reasons for the discharge and
  - an opportunity to make written representations to the AGSA within 20 days of receipt of the notice.
25. The auditee must at the same time notify the AGSA of its intention to discharge the appointed auditor by completing the document *Consultation with the Auditor-General of South Africa on the appointment or discharge of the registered auditor*, attached hereto as addendum B, and submitting it to the responsible AGSA business executive.
26. The AGSA considers the document and communicates its consent or otherwise to the auditee. The AGSA may consult with the relevant executive authority on this matter.
27. The AGSA reports any discharge of an audit firm to the relevant legislature.

**Responsibilities of registered auditors – part 2 of chapter 3 of the PAA**

28. When auditing in the public sector, the auditor must do so in accordance with the requirements, duties and responsibilities as legislated and assigned to them in part 2 of chapter 3 of the PAA. The auditor must take cognisance of the content of the PAA and must adhere to the following requirements when auditing auditees where the AGSA has opted not to perform the audit:
  - Appointment of auditors – section 25 of the PAA
  - Discharge of auditors – section 26 of the PAA
  - Duties and powers of auditors – section 27 of the PAA
  - The guidance necessary to conduct audits in the public sector, as well as the format and content of the auditor's report, as set out in the AGSA's *R3: Reporting* guide and any other guidance that may be published by the AGSA from time to time – section 28(1) of the PAA

- Submission of the auditor's report to the AGSA – section 28(3)(c) of the PAA
  - The requirements of this notice, as applicable
29. To assist auditors in conducting audits in the public sector, auditors should consider the following documents made available by the IRBA that provide a perspective on auditing in the public sector:
- *A guide for registered auditors: Auditing in the public sector*
  - *A guide for registered auditors: Audit of predetermined objectives*
  - South African Auditing Practice Statement (SAAPS) 2 *Financial reporting frameworks and the auditor's report*
  - SAAPS 3 *Illustrative reports*
- Reference may also be made to the AGSA's website<sup>4</sup> for additional information.
30. Compliance with the provisions of the PAA and this notice in conducting an audit in terms of section 25(1)(b) of the PAA is monitored by the AGSA. In this regard, the appointed auditor must complete the *Monitoring checklist for audits not conducted by the AGSA*, attached hereto as addendum C.

#### **Request for information – sections 27(5) and 28(3)(c) of the PAA**

31. The AGSA interacts proactively with executive authorities and oversight bodies, such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and enhance effective public governance.
32. The audit firm may be invited to such meetings and in terms of section 27(5) of the PAA, the AGSA may further request the audit firm to submit any information regarding the audit and/or relevant to such meetings, including the auditor's communications with those charged with governance. The invitation to meetings and/or request for information will be communicated by the contact person in the AGSA business unit responsible for the audit of the controlling department to which the auditee reports.
33. In terms of the requirements of section 28(3)(c) of the PAA, read with section 55(1)(d) of the PFMA, and in order to facilitate reporting on the full ministerial portfolio and reporting and analysis in the AGSA's general reports, the audit firm must furnish the responsible contact person, either in hard copy or electronically, with the following as soon as the annual report has been finalised but not later than five months after the financial year-end or as otherwise agreed with the responsible contact person:
- A copy of the auditor's report, together with a copy of the audited financial statements of the auditee
  - Three copies of the auditee's annual report
  - The completed monitoring checklist (addendum C)

#### **Complaints against registered auditors**

34. Should a registered auditor appointed in terms of section 25(1)(b) of the PAA be found to be in contravention of the requirements in this notice or any provision of the PAA, the Auditing Profession Act, 2005 (Act No. 26 of 2005) (hereafter referred to as the APA) or any act with which it is his/her duty to comply in his/her capacity as a registered auditor, the AGSA may lodge a complaint of improper conduct against such auditor with the IRBA.
35. In addition, a complaint of improper conduct may be lodged with IRBA against a registered auditor appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the auditor has conducted himself/herself in a manner that is improper, discreditable,

<sup>4</sup> <http://www.agsa.co.za>

unprofessional, dishonourable or unworthy or which brings the accounting profession into disrepute.

#### **AUDITEES FOR WHICH LEGISLATION IS NOT PRESCRIPTIVE IN RESPECT OF THE FINANCIAL STATEMENTS – SECTION 14(2)(b) OF THE PAA**

36. The financial statements of an auditee, as defined in section 1(1) of the PAA, which is not subject to the PFMA, MFMA or any other legislation that is prescriptive in respect of the financial statements, must:
- be prepared in accordance with the Generally Recognised Accounting Practice (GRAP) reporting framework issued by the Accounting Standards Board (ASB)<sup>5</sup> and
  - comply with the PFMA requirements applicable to entities as they pertain to the information to be contained in the financial statements, as well as the period within which the financial statements are to be submitted for audit.
37. The above requirement regarding the application of the GRAP reporting framework is not applicable where the auditee is not required to prepare full financial statements comprising a statement of financial position, a statement of financial performance, a statement of changes in net assets, a cash flow statement and notes, including a summary of significant accounting policies and other explanatory notes.

#### **TIMING AND SUBMISSION OF INFORMATION FOR AUDIT PURPOSES – SECTION 15(2)(b) OF THE PAA**

38. In order to comply with applicable legislated auditing and tabling deadlines in the PFMA and MFMA, as well as to allow adequate time for conducting the audit in accordance with the relevant auditing standards, auditees must adhere to the following:
- The annual performance reports and all other information to be included in the annual report must be submitted concurrently with the financial statements
  - The trial balance and general ledger that agree to the financial statements, together with the supporting asset register, inventory register and subsidiary-ledgers for receivables and payables, must be submitted together with the financial statements
  - All documentation and information in support of the financial statements and performance report must be available on request
  - Withdrawal and re-submission of financial statements and performance reports submitted for audit are not permitted; the financial statements and performance reports may only be adjusted for matters identified during the audit

#### **ASSESSMENT AND RECOGNITION OF THE FINANCIAL REPORTING FRAMEWORKS APPLICABLE IN THE PUBLIC SECTOR – SECTION 20(2)(a) OF THE PAA**

39. The applicable financial reporting framework provides the criteria against which the auditor audits the financial statements. As one of the preconditions for an audit, the auditor is required to determine whether the financial reporting framework applied in preparing the financial statements is acceptable and to assess whether it is a general purpose or compliance framework. This is done by considering the requirements of the ISAs and the guidance set out in *SAAPS 2: Financial reporting frameworks and the auditor's report*. The following financial reporting frameworks are recognised in the public sector:
- International Financial Reporting Standards (IFRS)
  - South African Statements of Generally Accepted Accounting Practice (SA GAAP), until such time as they are withdrawn from application in the public sector by the ASB

<sup>5</sup> <http://www.asb.co.za>



- Standards of Generally Recognised Accounting Practice (GRAP)
  - The Departmental Financial Reporting Framework prescribed by the National Treasury
40. Section 20(2)(a) of the PAA requires an opinion on the fair presentation of the financial statements to be expressed regardless of whether the auditee prepared its financial statements in terms of a fair presentation framework. Where the applicable financial reporting framework applied is not assessed to be a fair presentation framework, an *Additional matter* paragraph explaining this requirement is included in the auditor's report to mitigate any possible misunderstanding by the users of the financial statements that the financial statements have been prepared in terms of a fair presentation framework.
41. Departures or exemptions from the applicable financial reporting framework are granted in terms of sections 79 and 92 of the PFMA, respectively, and sections 170 and 177 of the MFMA, respectively.
42. Should an auditee be granted a departure or exemption from the applicable financial reporting framework in accordance with the requirements of the PFMA or MFMA, additional disclosure of the nature and reasons for, and the period of, and an indication of the items affected by the departure or exemption from the applicable financial reporting framework is required in the financial statements to mitigate against any possible misunderstanding by the users of the financial statements. The impact of the departure or exemption on the auditor's opinion is considered in terms of the ISAs.

#### REPEAL OF PRIOR GOVERNMENT GAZETTES

43. *General Notice 839*, issued in *Government Gazette No. 34783 of 28 November 2011*, is hereby withdrawn and replaced by the requirements as set out in this notice.

#### EFFECTIVE DATE

44. This notice is effective for financial periods beginning on or after 1 April 2013 and is applicable until further notice. A similar notice will not necessarily be issued annually.

#### ENQUIRIES

45. Any enquiry related to this notice should be addressed to the following office:
- Business Executive: Audit Research and Development, Auditor-General of South Africa  
Telephone: 012 426 8000  
Fax: 012 426 8333  
Email: [ARDsupport@agsa.co.za](mailto:ARDsupport@agsa.co.za)

Signed and approved:

T K Makwetu  
Auditor-General

**ADDENDUM A: CRITERIA USED TO EVALUATE INTERNAL CONTROL****LEADERSHIP**

- Provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the auditee.
- Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
- Establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
- Develop and monitor the implementation of action plans to address internal control deficiencies.
- Establish an IT governance framework that supports and enables the business, delivers value and improves performance.

**FINANCIAL AND PERFORMANCE MANAGEMENT**

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- Implement controls over daily and monthly processing and reconciling of transactions.
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
- Review and monitor compliance with applicable legislation.
- Design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

**GOVERNANCE**

- Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

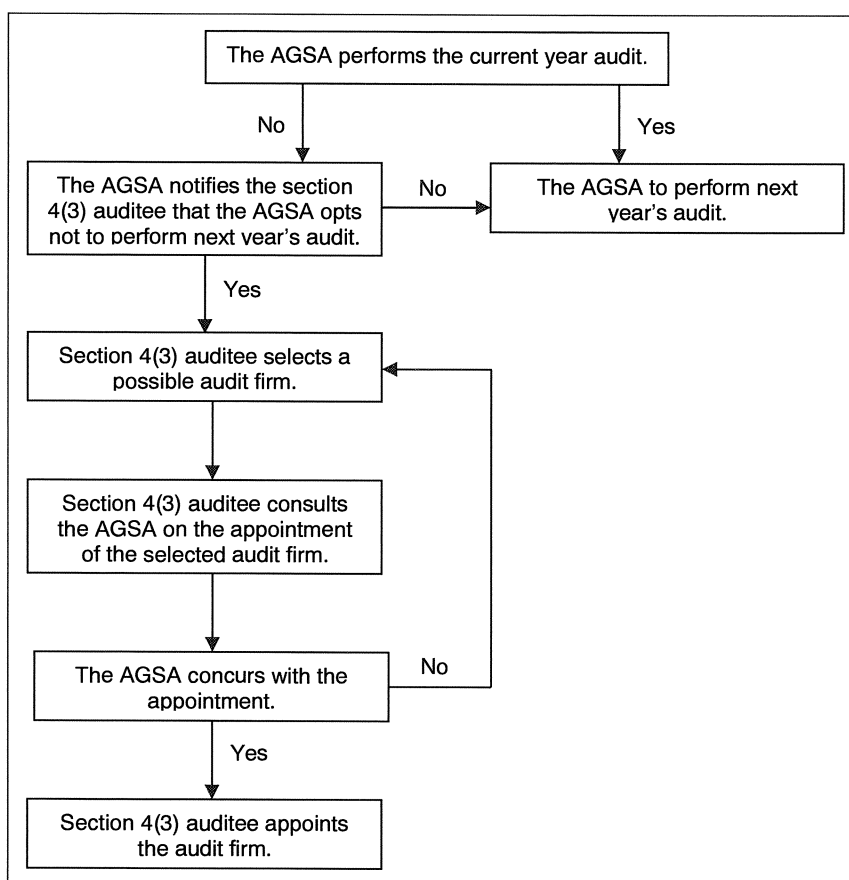
**ADDENDUM B: CONSULTATION WITH THE AUDITOR-GENERAL OF SOUTH AFRICA ON THE APPOINTMENT OR DISCHARGE OF THE REGISTERED AUDITOR IN TERMS OF SECTIONS 25 AND 26 OF THE PUBLIC AUDIT ACT, 2004 (ACT NO. 25 OF 2004)**

**INSTRUCTIONS FOR COMPLETION**

1. This checklist should be completed and submitted with supporting documentation to the AGSA business executive responsible for the audit of the controlling department to which the auditee reports.
2. The checklist should be accompanied by a copy of the auditee's policy on the appointment of auditors and the allocation of non-audit services to auditors.

**PARTICULARS OF AUDITEE**

<b>Name</b>		
<b>Postal address</b>		
<b>Physical address</b>		
<b>Fax number</b>		
<b>Telephone number</b>		
<b>Email address of chief financial officer</b>		
<b>Accounting authority chairperson</b>	<b>Name</b>	
	<b>Contact details</b>	
<b>Responsible minister (executive authority)</b>	<b>Name</b>	
	<b>Contact details</b>	
<b>Responsible department</b>		
<b>Contact person at department</b>		
<b>Financial year in question</b>		
<b>PFMA schedule (2, 3A, 3B, 3C or 3D)</b>		
<b>Name of holding entity (if applicable)</b>		

**SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS****APPOINTMENT OF NEW AUDITORS**

3. Name of the new audit firm:

*Insert details*

4. Anticipated date of appointment:

*Insert details*

5. Nature of other services to be performed:

*Insert details*

6. Details of any prior involvement with the auditee, including the costs:

*Insert details*

7. Details of how the quality of the audit firm's work has been assessed, e.g. results of IRBA reviews:

*Insert details*

8. Matters that may influence a decision regarding the independence or objectivity or perceived independence of any of the auditors:

*Insert details*

## REAPPOINTMENT OF AUDITORS

9. Name of audit firm to be reappointed:

*Insert details*

10. Financial year(s) previously appointed:

*Insert details*

11. Provide details of the audit committee's assessment of the effectiveness and efficiency of the performance of the external auditors, including IRBA review results:

*Insert details*

12. Provide details of significant disagreements between the external auditors and the accounting authority during the preceding financial year, if any:

*Insert details*

13. Indicate any matter that may influence a decision regarding the independence or objectivity or perceived independence of the auditors:

*Insert details*

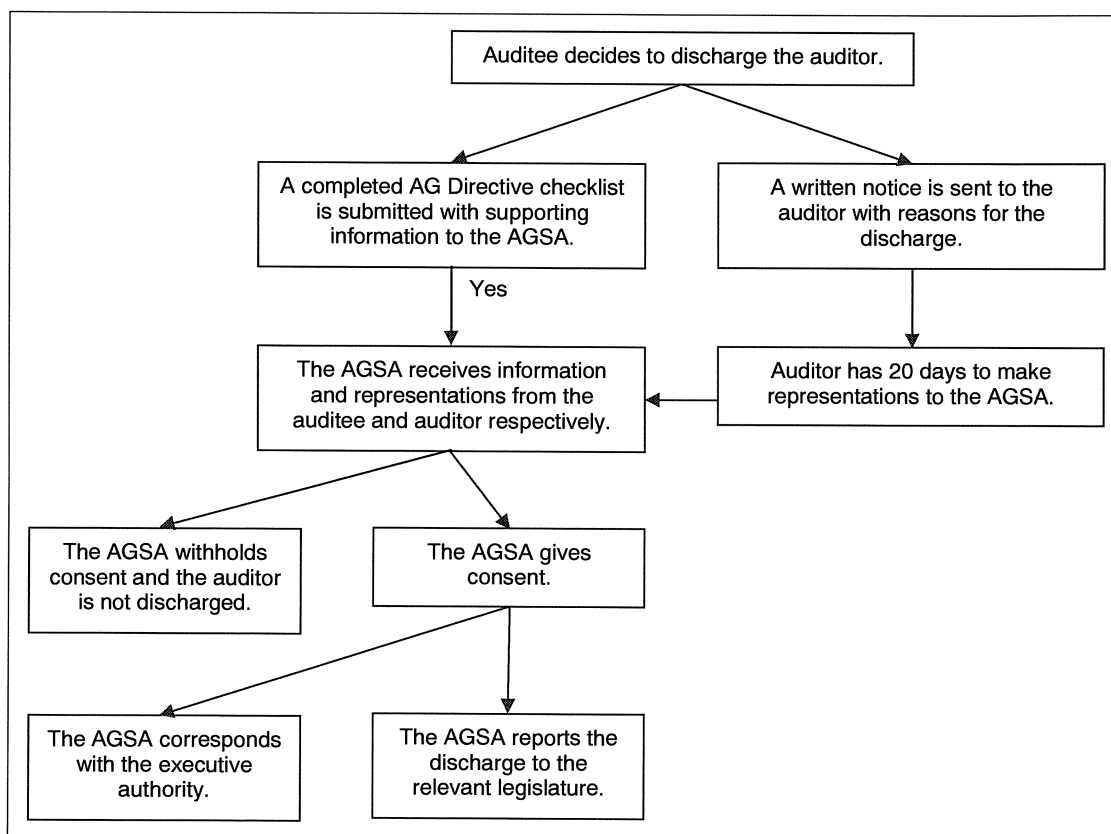
14. Name of the partner in charge of the audit for the last five years:

Year	Name of partner
1	
2	
3	
4	
5	

15. Name of the senior audit manager in charge of the audit for the last five years:

Year	Name of senior audit manager
1	
2	
3	
4	
5	

#### SCHEMATIC ILLUSTRATION OF THE AUDITOR DISCHARGE PROCESS



#### DISCHARGE OF AUDITOR

16. Name of the audit firm discharged:

*Insert details*

17. Number of years engaged on the audit to date:

*Insert details*

18. Costs of audit and non-audit services provided by the audit firm during the last three years:

Financial year			
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<b>Audit fees</b>			
<b>Fees for other services</b>			
<b>Total fees</b>			
<b>Non-audit fees as a percentage of total fees</b>			
<b>Nature of services performed</b>			

19. Provide the notice to the auditor, giving the reasons for the impending discharge.

20. Provide written concurrence by the executive authority for the planned discharge.

**Completed by:**

\_\_\_\_\_  
(signature)

**Completed by:**

\_\_\_\_\_  
(name)

**Designation:**

**Date:**

**ADDENDUM C: MONITORING CHECKLIST FOR AUDITS NOT CONDUCTED BY THE AGSA****INSTRUCTIONS**

1. This checklist should be completed by the appointed audit firm for each audit conducted by it and should be submitted to the contact person in the AGSA business unit responsible for the audit of the controlling department to which the auditee reports within five months of the financial year-end, i.e. 31 August.

**INFORMATION REQUIRED**

<b>Name of the auditee</b>	
<b>Controlling department</b>	
<b>Type of auditee (schedule number)</b>	
<b>Holding company (if applicable)</b>	
<b>Subsidiaries (if applicable)</b>	
<b>Audit business unit (ABU)</b>	
<b>Business executive</b>	
<b>Engagement firm</b>	
<b>Engagement firm's address</b>	
<b>Engagement firm's contact details</b>	
<b>Engagement partner</b>	
<b>Engagement partner's contact details</b>	

No.	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
<b>Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)</b>			
1.	All the requirements of the PAA and this general notice were complied with in respect of the following:		
	• Appointment of auditors (section 25)		
	• Discharge of auditors (section 26)		
	• Duties and powers of auditors (section 27)		
2.	The auditor's report to the accounting authority was submitted within the time frame prescribed by the PFMA.		
3.	A copy of the auditor's report, together with a copy of the financial statements, was submitted to the AGSA by 31 August.		
4.	Three copies of the annual report were submitted to the AGSA by 31 August.		
<b>Auditor's report</b>			



No.	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
5.	The auditor's report was addressed to the appropriate addressee as per the AGSA guidance.		
6.	The auditor's report distinguished clearly between the report on the financial statements and the report on other legal and regulatory requirements as per the AGSA guidance.		
7.	The auditor's report distinguished between the supplementary information that has not been audited and the financial statements that have been audited by indicating the page numbers relating to the financial statements.		
8.	The auditor's report correctly referred to the accounting authority as the party responsible for the preparation of the financial statements or consolidated financial statements.		
9.	The auditor's report made reference to the correct financial reporting framework for the type of auditee.		
10.	The audit findings on the reported information on performance against predetermined objectives were reported under the following headings (if relevant) in the auditor's report:		
	• Presentation of information		
	• Usefulness of information		
	• Reliability of information		
11.	Findings on compliance with applicable legislation were reported under subject matter headings as per the AGSA reporting guide.		
12.	The auditor's report included a narrative discussion under each of the following three fundamentals of internal control, which reflected the deficiencies in internal control identified during the audit as they relate to the qualifications on the financial statements, as well as the findings on the reported information on performance against predetermined objectives and compliance with applicable legislation as per the AGSA reporting guide:		
	• Leadership		

No.	Requirements	Complied Yes/No*/Not applicable	Remarks/Comments
	<ul style="list-style-type: none"> <li>Financial and performance management</li> <li>Governance</li> </ul>		
13.	The auditor's report included information on the following other reports:		
	<ul style="list-style-type: none"> <li>Investigations</li> <li>Performance audits</li> <li>Agreed-upon procedures engagements</li> <li>Special audits</li> <li>Donor funding</li> </ul>		
14.	Separate financial statements were prepared and audited for all subsidiaries		
* Where a "No" answer is provided, comments must be included below.			

15. General comments by the appointed auditor:

*Insert details*

Engagement partner:

\_\_\_\_\_  
(signature)

Completed by:

\_\_\_\_\_  
(name)

Date:

\_\_\_\_\_

**CONCLUSION** *(to be completed by the ABU)*

No.	Requirements	Complied Yes/No*	Remarks/ Comments
1.	Did the auditors and auditee satisfy the requirements of sections 25 to 27 of the PAA relating to the following?		
	• Appointment of auditors		
	• Discharge of auditors		
	• Duties and powers of auditors		
2.	Has the engagement firm satisfied the reporting requirements of the following?		
	• PAA		
	• This general notice		
	• AGSA's <i>R3: Reporting</i> guide		
* Where a "No" answer is provided, comments must be included below.			

## 3. General comments:

*Insert details*

## 4. Recommended further action in terms of this notice:

*Insert details*

Evaluated by BE/SM:

 (signature)

Completed by:

 (name)

Date:

**ADDENDUM D: RELEVANT EXTRACTS FROM THE PAA****2. Objects of this act**

The objects of this Act are -

- (b) to provide for the auditing of institutions and accounting entities in the public sector;

**4. Constitutional functions**

- (1) The Auditor-General must audit and report on the accounts, financial statements and financial management of -
  - (a) all national and provincial state departments and administrations;
  - (b) all constitutional institutions;
  - (c) the administration of Parliament and of each provincial legislature;
  - (d) all municipalities;
  - (e) all municipal entities; and
  - (f) any other institution or accounting entity required by other national or by provincial legislation to be audited by the Auditor-General.
- (2) The Auditor-General must audit and report on the consolidated financial statements of -
  - (a) the national government as required by section 8 of the PFMA;
  - (b) all provincial governments as required by section 19 of the PFMA; and
  - (c) a parent municipality and all municipal entities under its sole or effective control as required by section 122 (2) of the MFMA.
- (3) The Auditor-General may audit and report on the accounts, financial statements and financial management of –
  - (a) any public entity listed in the PFMA; and
  - (b) any other institution ... which is -
    - (i) funded from the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
    - (ii) authorised in terms of any legislation to receive money for a public purpose.

**5. Other functions**

- (1) The Auditor-General may, at a fee, and without compromising the role of the Auditor-General as an independent auditor, provide –
  - (a) audit-related services to an auditee ... or other body, which is commonly performed by a supreme audit institution on condition that -
    - (i) no services may be provided in respect of any matter that may subsequently have to be audited by the Auditor-General;
    - (ii) such service will not directly result in the formulation of policy; and
    - (iii) there must be full and proper disclosure of (the categories of) such services (in the report annually submitted by the Auditor-General to the National Assembly).
  - (d) carry out an appropriate investigation or special audit of any institution ..., if the Auditor-General considers it to be in the public interest or upon the receipt of a complaint or request.

- (3) The Auditor-General may, in the public interest, report on any matter within the functions of the Auditor-General and submit such a report to the relevant legislature and to any other organ of state with a direct interest in the matter.

#### **11. Application of this part**

This part applies to all audits of auditees which the Auditor-General -

- (a) must perform in terms of section 4 (1) or (2); or
- (b) opts to perform in terms of section 4 (3).

#### **13. Standards for audits**

- (1) The Auditor-General, after consulting the oversight mechanism, must determine -
- (a) the standards to be applied in performing audits ...
  - (b) the nature and scope of such audits; and
  - (c) procedures for the handling of complaints when performing such audits.
- (3) The Auditor-General may -
- (a) make different determinations on the matters mentioned in subsection (1) for different categories of audits based on recognised best practice; or
  - (b) issue specific directives on those matters in any specific case.

#### **14. Submission of financial statements**

- (2) Financial statements submitted by an auditee which is not subject to the PFMA or the MFMA must be submitted within the period, be in a format, contain the information and otherwise comply with any requirements determined -
- (a) by any legislation applicable to that auditee; or
  - (b) in the absence of such legislation, by the Auditor-General.

#### **15. General auditing powers**

- (2) The Auditor-General or an authorised auditor may for the purpose of an audit -
- (b) direct a person to produce or to deliver at a specified place and time and in a specified format -
    - (i) any such document, book or written or electronic record or information...

#### **20. Audit reports**

- (2) An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -
- (a) whether the annual financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
  - (b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and

- (c) the reported information relating to the performance of the auditee against predetermined objectives.
- (3) In addition, the Auditor-General may report on whether the auditee's resources were procured economically and utilised efficiently and effectively.

## **25. Appointment of auditors**

- (1) If the Auditor-General has opted not to perform the audit of an auditee ...
  - (a) the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee's financial year for which the appointment is to be made; and
  - (b) the auditee must appoint as its auditor a person registered in terms of the Public Accountants' and Auditors' Act as an accountant and auditor and engaged in public practice as such.
- (2) Before appointing an auditor in terms of subsection (1), the auditee must give notice of the suggested appointment to the Auditor-General, including information on the extent to which the auditor would provide other services than audit services during the duration of the appointment, and any other information required by the Auditor-General.
- (3) If the Auditor-General, within 14 days of receiving a notice in terms of subsection (2) or such longer period as may be agreed to, rejects the auditee's appointment, the auditee must in terms of that subsection recommence the process to appoint another person as its auditor.
- (4) Appointments in terms of this section may not be for a longer period than one financial year of the auditee.

## **26. Discharge of auditors**

- (1) An auditee ... may discharge an auditor ... before the expiry of that auditor's term of appointment, but only with the consent of the Auditor-General and, if that auditee has an executive authority within the meaning of the PFMA, also of the relevant executive authority.
- (2) If such an auditee intends discharging an auditor in terms of subsection (1), it must -
  - (a) give the auditor notice, in writing, setting out the reasons for the discharge; and
  - (b) give the auditor an opportunity to make representations, in writing, to the Auditor-General within 20 days of receipt of the notice.
- (3) The Auditor-General must report any discharge of an auditor in terms of subsection (1) to the relevant legislature.

## **27. Duties and powers of auditors**

- (1) An auditor ... must perform the functions of office as auditor in terms of section 20 of the Public Accountants' and Auditors' Act.
- (2) In performing those functions as the auditor of an auditee, the auditor has the powers assigned to the Auditor-General in terms of section 15 (of the PAA).
- (3) An auditor may consult the Auditor-General or a person designated by the Auditor-General concerning any matter relating to the auditing of the auditee concerned.
- (4) An auditor -
  - (a) must be given notice of every meeting of the auditee's audit committee, if the auditee has such a committee; and
  - (b) may attend, and participate in, any meeting of such an audit committee at the expense of the auditee.

- (5) The Auditor-General or a person designated by the Auditor-General may request information regarding the audit from an auditor ...

**28. Audit reports and other reports**

- (1) The report of an auditor ... must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on -
- (a) whether the financial statements of the auditee fairly present, in all material respects, the financial position at a specific date and results of its operations and cash flow for the period which ended on that date in accordance with the applicable financial framework and legislation;
  - (b) the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters; and
  - (c) the reported information relating to the performance of the auditee against predetermined objectives.
- (3) The auditor must submit copies of the audit report referred to in subsection (1) -
- (a) to the auditee;
  - (b) if the auditee has an executive authority within the meaning of the PFMA, to that executive authority for submission to the relevant legislature;
  - (c) to the Auditor-General; and
  - (d) to the National Treasury or the relevant provincial treasury, as may be appropriate.
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